

[G.R. No. 211850. September 8, 2020.]

**ZUNECA PHARMACEUTICAL, AKRAM ARAIN AND/OR VENUS ARAIN, M.D., AND  
STYLE OF ZUNECA PHARMACEUTICAL, *petitioners*, vs. NATRAPHARM, INC.,  
*respondent*.**

## **DECISION**

Businesses generally thrive or perish depending on their reputation among customers. Logically, consumers gravitate towards products and services they believe are of a certain quality and provide perceived benefits. Thus, entrepreneurs and businesses actively seek to set apart their reputation and goodwill from every other enterprise with the goal of being the top-of-mind choice for the consumers. As signs differentiating the wares or services offered by enterprises, trademarks serve this purpose of making the products and services of each business uniquely memorable. Trademarks have several functions: they indicate the origin or ownership of the articles or services in which they are used; they guarantee that the articles or services come up to a certain standard of quality; and they advertise the articles and services they symbolize. Indeed, the goodwill of a business, as symbolized and distinguished by its trademarks, helps ensure that the enterprise stands out, stays afloat, and possibly flourish amidst the sea of commercial activity where the consumers' continued patronage is a lifebuoy that may determine life or death.

Faced with this intrinsic need to survive, enterprises are becoming increasingly aware of the need to protect their goodwill and their brands. The State, too, is interested in the protection of the intellectual property of enterprises and individuals who have exerted effort and money to create beneficial products and services. In line with this, and considering the extent to which intellectual property rights impact on the viability of businesses, a common controversy in the field of intellectual property law is to whom these rights pertain.

In this case of first impression, this is precisely the issue at hand. This case concerns trademarks which are used for different types of medicines but are admitted by both parties to be confusingly similar. Exacerbating this controversy on the issue of ownership, however, are conflicting interpretations on the rules on the acquisition of ownership over trademarks, muddled by jurisprudential precedents which applied principles inconsistent with the current law. Thus, in resolving this issue, the Court needed to examine and ascertain the meaning and intent behind the rules that affect trademark ownership.

## ***Facts***

This is a Petition for Review on *Certiorari* (Petition) under Rule 45 with Prayer for Temporary Restraining Order (TRO) and/or Preliminary Injunction filed by petitioners Zuneca Pharmaceutical, Akram Arain and/or Venus Arain, M.D., and Style of Zuneca Pharmaceutical (collectively, Zuneca) assailing the Decision dated October 3, 2013 and Resolution dated March 19, 2014 of the Court of Appeals (CA) in CA-G.R. CV No. 99787. The CA denied Zuneca's appeal and affirmed the Decision dated December 2, 2011 of the Regional Trial Court of Quezon City, Branch 93 (RTC) in Civil Case No. Q-07-61561, which found Zuneca liable for trademark infringement under Sections 155 to 155.2 of Republic Act No. (R.A.) 8293, also known as the Intellectual Property Code of the Philippines (IP Code), and awarded damages in favor of respondent Natrapharm, Inc. (Natrapharm).

Petitioner Zuneca Pharmaceutical has been engaged in the importation, marketing, and sale of various kinds of medicines and drugs in the Philippines since 1999. It imports generic drugs from Pakistan and markets them in the Philippines using different brand names. Among the products it has been selling is a drug called *carbamazepine* under the brand name "ZYNAPS," which is an anti-convulsant used to control all types of seizure disorders of varied causes like epilepsy. Petitioner Venus S. Arain, M.D. (Dr. Arain) was the proprietor of Zuneca Pharmaceutical before Zuneca, Inc. was incorporated. Akram Arain, meanwhile, is the husband of Dr. Arain, who later on became the President of Zuneca, Inc.

Natrapharm, on the other hand, is a domestic corporation engaged in the business of manufacturing, marketing, and distribution of pharmaceutical products for human relief. One of the products being manufactured and sold by Natrapharm is *citicoline* under the trademark "ZYNAPSE," which is indicated for the treatment of cerebrovascular disease or stroke. The trademark "ZYNAPSE" was registered with the Intellectual Property Office of the Philippines (IPO) on September 24, 2007 and is covered by Certificate of Trademark Registration No. 4-2007-005596.

On November 29, 2007, Natrapharm filed with the RTC a Complaint against Zuneca for Injunction, Trademark Infringement, Damages and Destruction with Prayer for TRO and/or Preliminary Injunction, alleging that Zuneca's "ZYNAPS" is confusingly similar to its registered trademark "ZYNAPSE" and the resulting likelihood of confusion is dangerous because the marks cover medical drugs intended for different types of illnesses. Consequently, Natrapharm sought to enjoin Zuneca from using "ZYNAPS" or other variations thereof, in addition to its demand for Zuneca's payment of Two Million Pesos (P2,000,000.00) in damages; Five Million Pesos (P5,000,000.00) in exemplary damages; and Three Hundred Thousand Pesos (P300,000.00) as attorney's fees, expenses of litigation, and costs of suit. Further, it prayed that all infringing goods, labels, signs, etc. of Zuneca be impounded and destroyed without compensation.

In its Answer (With Compulsory Counterclaim and Prayer for Preliminary Injunction), Zuneca claimed that it has been selling *carbamazepine* under the mark "ZYNAPS" since 2004 after securing a Certificate of Product Registration on April 15, 2003 from the Bureau of Food and Drugs (BFAD, now Food and Drug Administration). It alleged that it was impossible for Natrapharm not to have known the existence of "ZYNAPS" before the latter's registration of "ZYNAPSE" because Natrapharm had promoted its products, such as "Zobrixol" and "Zcure," in the same publications where Zuneca had advertised "ZYNAPS." Further, Zuneca pointed out that both Natrapharm and Zuneca had advertised their respective products in identical conventions. Despite its knowledge of prior use by Zuneca of "ZYNAPS," Natrapharm had allegedly fraudulently appropriated the "ZYNAPSE" mark by registering the same with the IPO. As the prior user, Zuneca argued that it is the owner of "ZYNAPS" and the continued use by Natrapharm of "ZYNAPSE" causes it grave and irreparable damage.

On the basis of such arguments, Zuneca insisted that it is Natrapharm which should be liable for damages. On this score, Zuneca prayed that its counterclaims against Natrapharm be granted by the RTC, namely, the cancellation of Natrapharm's "ZYNAPSE" registration; the prohibition of Natrapharm from manufacturing, advertising, selling, and distributing "ZYNAPSE" products; the destruction of "ZYNAPSE" products and labels; the payment of Two Million Pesos (P2,000,000.00), or double such amount, in the discretion of the court, as damages for fraudulent registration; and the payment of Five Million Pesos (P5,000,000.00) as moral damages, Two Million Pesos (P2,000,000.00) as exemplary damages, Three Hundred Thousand Pesos (P300,000.00) as attorney's fees, and Fifty Thousand Pesos

(P50,000.00) as costs of suit.

Subsequently, after a summary hearing, the prayer for TRO was denied. The preliminary injunction and counter preliminary injunction prayed for by the parties were likewise rejected.

As summarized by the CA, the following evidence were presented during the trial:

First to testify on the part of Natrapharm was Cristina Luna Ravelo who is the vice president for marketing of Natrapharm. According to her, she was the one who conceptualized the name "ZYNAPSE"[,] taking it from "Synapse" which was a publication she sponsored when she was the product manager of [the Philippine] Neurological Association. Further[,]"Synapse" is a neurological term referring to the junction between 2 nerves where nerve signals are transmitted, hence appropriate for a medicine for stroke. Afterward[s], the witness verified using the research tool IMS-PPI, which lists the pharmaceutical products marketed in the Philippines, any other cerebroprotective products (CO4A) that [are] confusingly similar with "ZYNAPSE." Finding none in the list covering the period of the fourth quarter of 2004 up to the first quarter of 2007, the witness proceeded with the registration of "ZYNAPSE" with the IPO. After the IPO issued a [certificate of trademark registration], the BFAD, in turn, released a Certificate of Product Listing for "ZYNAPSE." The witness likewise revealed that she was informed in late September 2007 of the existence of "ZYNAPS" after a sales personnel had informed her of such drug being sold in Visayas and Mindanao. After learning this, the witness brought the matter to Dr. Arain, but no resolution was agreed upon by the parties due to a difference in opinion.

On cross-examination, the witness averred that she did not check with drugstores and other publications for similar brand names as "ZYNAPSE," as she only relied with [the] IMS[-PPI]. Further, the witness explained that the formulation of the drug "ZYNAPSE" is owned by Patriot Pharmaceutical [(Patriot)] and this formulation is marketed by Natrapharm through the brand name "ZYNAPSE."

On re-direct, the witness clarified that she did not conduct any field survey to find if there [we]re similar brand names as "ZYNAPSE," because of the difficulty posed by inquiring from each [of the 3,000 to 4,000 drug stores] nationwide. In addition, it was x x x Natrapharm's strategy to remain quiet about [its] product.

Next to testify was Jeffrey Silang, the Analyst Programmer of Natrapharm. His function [was] to create a system and generate reports for accounting, inventory and sales for Natrapharm. The witness stated that Patriot is a mere supplier of Natrapharm and that Natrapharm has other suppliers. The witness then identified a sales report which indicate[d] that WMMC Hospital bought several quantities of "ZYNAPSE" products from Natrapharm. Also included in said report [was] an entry "non-psyche Patriot" which represent[ed] its supplier.

On cross-examination, the witness reiterated that Patriot supplies the raw materials to Natrapharm. Natrapharm, in turn, repackage[s] these materials to

bear the brand "ZYNAPSE." The witness also admitted that he d[id] not know exactly why "ZYNAPSE" is qualified as non-psyche, as he is a mere Information Technology expert.

Last to testify was Atty. Caesar J. Poblador who identified his Judicial Affidavit dated [November 4, 2009] which contain[ed] the several invoices charged by his law firm to Natrapharm in consideration of the law firm's legal service.

On the part of [Zuneca], Dr. Arain took the stand and identified her Supplemental Affidavit dated [February 12, 2010]. On said Affidavit, it [was] stated that Dr. Arain established Zuneca [Pharmaceutical] in 1999. Subsequently, [Zuneca, Inc.] was incorporated on [January 8, 2008] and [it] took over the business of Zuneca Pharmaceutical. Verily, among the products that Zuneca sells is [*carbamazepine*] with the brand name "ZYNAPS" for which Zuneca applied for a Certificate of Product Registration (CPR) from BFAD. On [April 15, 2003], Zuneca was able to obtain a CPR over its [*carbamazepine*] product valid for five (5) years which was [then] renewed for another five (5) years or until [April 15, 2013]. Zuneca then started importing [*carbamazepine*] "ZYNAPS" in December 2003 and began promoting, marketing and selling them in 2004. In order to promote "ZYNAPS," Zuneca advertised it through paid publications such as the (1) Philippine Pharmaceutical Directory or PPD; (2) PPD's Better Pharmacy; and (3) PPD's Philippine Pharmaceutical Directory Review (PPDr). Apparently, said publications also cover[ed] the different products of Natrapharm and its affiliate [Patriot]. Allegedly, the two companies (Natrapharm and Patriot) participated as partners in a medical symposi[um] on [October 22 to 23, 2009].

When asked why she did not register her trademark with the IPO, x x x [Dr.] Arain answered that she could not find the time because of the illness of her father.

On cross-examination, Dr. Arain testified that she remained as an adviser of Zuneca, Inc., after its incorporation. She then told her husband, who became the President of Zuneca, Inc. and the vice president about the dispute with Natrapharm. Further, the witness admitted that she did not secure an advertising page for "ZYNAPS" in the [PPD].

Last to testify was Emmanuel Latin, the president of Medicomm Pacific (Medicomm). The witness attested that Medicomm is engaged in the publication of lists of drugs which it gives to doctors as reference in the preparation of prescriptions for their patients. The witness then enumerated their publications as PPD, PPDr, and PPD's Better Pharmacy which the company publishes annually and distributes to doctors for free. According to the witness, several years ago, Medicomm invited pharmaceutical companies to list with its publications for free. Thereafter, the said pharmaceutical companies started advertising with Medicomm for a fee which then became the source of revenues for Medicomm. The witness also affirmed that Zuneca, Natrapharm and Patriot are advertisers of PPD. However, the

witness admitted that "ZYNAPSE" [was] not listed in the PPD.

### ***The RTC Ruling***

After trial, the RTC issued its Decision dated December 2, 2011, the dispositive portion of which states:

**WHEREFORE**, in view of the foregoing, judgment is hereby rendered in favor of [Natrpharm] and against [Zuneca].

[Zuneca], jointly and severally, [is] hereby directed to pay [Natrpharm] the following amounts, to wit:

One Million Pesos (P1,000,000.00) as damages;  
One Million Pesos (P1,000,000.00) as exemplary damages;  
Two Hundred Thousand Pesos (P200,000.00) as attorney's fees; and  
the Costs.

[Zuneca is] further enjoined from henceforth using ["ZYNAPS"] or any other variations thereto which are confusingly similar to [Natrpharm's "ZYNAPSE."]

It is likewise ordered that all infringing goods, labels, signs, prints, packages, wrappers, receptacles and advertisements in possession of [Zuneca], bearing the registered mark or any reproduction, counterfeit, copy or colourable imitation thereof, all plates, molds, matrices and other means of making the same, implements, machines and other items related to the conduct, and predominantly used, by [Zuneca] in such infringing activities, be disposed of outside the channels of commerce or destroyed, without compensation.

The counterclaim of [Zuneca] is DISMISSED for lack of merit.

SO ORDERED.

The RTC ruled that the first filer in good faith defeats a first user in good faith who did not file any application for registration. Hence, Natrpharm, as the first registrant, had trademark rights over "ZYNAPSE" and it may prevent others, including Zuneca, from registering an identical or confusingly similar mark. Moreover, the RTC ruled that there was insufficient evidence that Natrpharm had registered the mark "ZYNAPSE" in bad faith. The fact that "ZYNAPS" and Natrpharm's other brands were listed in the Philippine Pharmaceutical Directory (PPD) was not sufficient to show bad faith since Zuneca's own witness admitted to not having complete knowledge of the drugs listed in the PPD. Natrpharm should also therefore be accorded the benefit of the doubt that it did not have complete knowledge of the other brand names listed in the PPD. Further, following the use of the dominance test, the RTC likewise observed that "ZYNAPS" was confusingly similar to "ZYNAPSE." To protect the public from the disastrous effects of erroneous prescription and mistaken dispensation, the confusion between the two drugs must be eliminated.

### ***The CA Ruling***

Aggrieved, Zuneca appealed the RTC's Decision to the CA, raising the following issues: (1) whether the RTC erred in ruling that the first-to-file trademark registrant in good faith defeats the right of the prior user in good faith, hence, Natrapharm has the right to prevent Zuneca from using or registering the trademark "ZYNAPS" or marks similar or identical thereto; (2) whether the RTC erred in finding that Natrapharm was in good faith when it registered the trademark "ZYNAPSE" for *citicoline*; (3) whether the RTC erred in ruling that Zuneca is liable for trademark infringement and therefore liable for damages and attorney's fees and should be enjoined from the use of the trademark "ZYNAPS" and marks similar thereto, and that Zuneca's goods and materials in connection with the trademark "ZYNAPS" must be disposed outside the channels of trade or destroyed without compensation; and (4) whether the RTC erred in dismissing Zuneca's counterclaims for lack of merit.

In a Decision dated October 3, 2013, the CA denied Zuneca's appeal for lack of merit, the dispositive portion of which states:

**WHEREFORE**, premises considered, the instant Appeal is **DENIED** for lack of merit, and the assailed decision rendered by the Regional Trial Court of Quezon City, Branch 93 dated [December 2, 2011] is **AFFIRMED**.

**SO ORDERED.**

In affirming the RTC, the CA stated that registration, not prior use, is the mode of acquiring ownership of a trademark. The mark must be registered in order to acquire ownership and the failure to do so renders the non-registering user susceptible to a charge of infringement. Moreover, those who intend to register their mark need not look at the other marks used by other persons but must confine only their search to the marks found in the database of the IPO. If there are no similar or identical marks, the mark should be registered as a matter of course. Hence, as the registered owner of the trademark "ZYNAPSE," Natrapharm has every right to prevent all other parties from using identical or similar marks in their business, as provided in the IP Code. Further, only the registered owner of the trademark may file a civil action against the infringer and seek injunction and damages.

On the issue of good faith, the CA affirmed the findings of the RTC that Natrapharm had no knowledge of the existence of "ZYNAPS" prior to the registration of "ZYNAPSE." The CA also found that the testimony of Natrapharm's witness Cristina Luna Ravelo (Ravelo) showed that Natrapharm was able to register "ZYNAPSE" after it was cleared using the databases of the IPO and the BFAD. The CA ruled that good faith is presumed and it was incumbent on Zuneca to show that Natrapharm was in bad faith when it registered "ZYNAPSE," which Zuneca failed to show. The CA stated that it was not enough that Zuneca and Natrapharm had exhibited in the same convention two years prior to the registration of "ZYNAPSE" and ruled that it was unlikely that the participants would remember each and every medicine or drug exhibited during said convention. Besides, Zuneca failed to show that the people who had attended the convention on behalf of Natrapharm were also the ones who were responsible for the creation of "ZYNAPSE" or that they were still connected to Natrapharm at the time the "ZYNAPSE" mark was registered with the IPO in 2007.

In a Resolution dated March 19, 2014, the CA denied Zuneca's motion for reconsideration.

Hence, Zuneca filed the instant Petition.

In compliance with the Court's Resolution dated June 2, 2014, Natrapharm filed its Comment. Zuneca thereafter filed its Reply to Natrapharm's Comment. In a Resolution dated June 6, 2016, the Court required each party to file their respective Memoranda. In compliance with this, Natrapharm filed its Memorandum dated September 6, 2016 and Zuneca filed its Memorandum dated September 16, 2016.

### ***The Issues***

As stated by Zuneca, the issues for the Court's resolution are as follows:

I

WHETHER OR NOT THE [CA] ERRED IN AFFIRMING THE RTC'S RULING THAT THE FIRST-TO-FILE TRADEMARK REGISTRANT IN GOOD FAITH DEFEATS THE RIGHT OF THE PRIOR USER IN GOOD FAITH, HENCE, [NATRAPHARM] HAS THE RIGHT TO PREVENT [ZUNECA] FROM USING/REGISTERING THE TRADEMARK "ZYNAPS" OR [MARKS] SIMILAR [OR] IDENTICAL THERETO.

II

WHETHER OR NOT THE [CA] ERRED IN AFFIRMING THE RTC'S FINDING THAT [NATRAPHARM] WAS IN GOOD FAITH WHEN IT REGISTERED THE TRADEMARK "ZYNAPSE" FOR [CITICOLINE].

III

WHETHER OR NOT THE [CA] ERRED IN AFFIRMING THE RTC'S RULING THAT [ZUNECA IS] LIABLE FOR TRADEMARK INFRINGEMENT AND [IS] THUS LIABLE FOR DAMAGES AND ATTORNEY'S FEES AND [IS] ENJOINED FROM THE USE OF THE TRADEMARK "ZYNAPS" AND MARKS SIMILAR THERETO; AND THAT ALL [OF ZUNECA'S] GOODS AND MATERIALS IN CONNECTION WITH THE TRADEMARK "ZYNAPS" MUST BE DISPOSED OUTSIDE THE CHANNELS OF TRADE OR DESTROYED WITHOUT COMPENSATION.

IV

WHETHER OR NOT THE [CA] ERRED IN AFFIRMING THE RTC'S DISMISSAL OF [ZUNECA'S] COUNTERCLAIMS FOR LACK OF MERIT.

V

WHETHER OR NOT THE [CA] ERRED IN RULING THAT [ZUNECA], FOR FAILURE TO REGISTER "ZYNAPS" AND FOR FAILURE TO OPPOSE [NATRAPHARM'S] APPLICATION FOR "ZYNAPSE"[, IS] BARRED BY LACHES AND [IS] DEEMED TO HAVE ABANDONED [ITS] TRADEMARK.

It bears stressing at this juncture that the confusing similarity of the "ZYNAPS" and "ZYNAPSE" marks was admitted by both parties. The resolution of this controversy necessitates determining who has the right to prevent the other party from using its

confusingly similar mark. Thus, the following questions must be answered: (1) How is ownership over a trademark acquired? (2) Assuming that both parties owned their respective marks, do the rights of the first-to-file registrant Natrapharm defeat the rights of the prior user Zuneca, *i.e.*, may Natrapharm prevent Zuneca from using its mark? (3) If so, should Zuneca be held liable for trademark infringement?

### ***The Court's Ruling***

Under the law, the owner of the mark shall have the exclusive right to prevent all third parties not having the owner's consent from using identical or similar marks for identical or similar goods or services where such use would result in a likelihood of confusion.

Further, in *Prosource International, Inc. v. Horphaq Research Management SA*, the Court held that, to establish trademark infringement, the following elements must be proven: (1) the trademark being infringed is registered in the IPO; (2) the trademark is reproduced, counterfeited, copied, or colorably imitated by the infringer; (3) the infringing mark is used in connection with the sale, offering for sale, or advertising of any goods, business, or services; or the infringing mark is applied to labels, signs, prints, packages, wrappers, receptacles, or advertisements intended to be used upon or in connection with such goods, business, or services; (4) the use or application of the infringing mark is likely to cause confusion or mistake or to deceive purchasers or others as to the goods or services themselves or as to the source or origin of such goods or services or the identity of such business; and (5) it is without the consent of the trademark owner or the assignee thereof.

Thus, to determine the prevailing party in this controversy and the existence of trademark infringement, the Court first has to rule on the issue of acquisition of ownership of marks by both parties.

#### ***I. How trademark ownership is acquired***

The RTC and the CA both ruled that, having been the first to register in good faith, Natrapharm is the owner of the trademark "ZYNAPSE" and it has the right to prevent others, including Zuneca, from registering and/or using a confusingly similar mark.

Zuneca, however, contends that, as the first user, it had already owned the "ZYNAPS" mark prior to Natrapharm's registration and, invoking *Berris Agricultural Co., Inc. v. Abyadang 68 (Berris)* and *E.Y. Industrial Sales, Inc., et al. v. Shen Dar Electricity and Machinery Co., Ltd. (E.Y. Industrial Sales, Inc.)*, its rights prevail over the rights of Natrapharm, the first registrant of a confusingly similar mark.

The Court holds that Zuneca's argument has no merit because: (i) the language of the IP Code provisions clearly conveys the rule that ownership of a mark is acquired through registration; (ii) the intention of the lawmakers was to abandon the rule that ownership of a mark is acquired through use; and (iii) the rule on ownership used in *Berris* and *E.Y. Industrial Sales, Inc.* is inconsistent with the IP Code regime of acquiring ownership through registration.

#### ***i. Under the IP Code, ownership of a mark is acquired through registration***

Special laws have historically determined and provided for the acquisition of ownership over marks, and a survey thereof shows that ownership of marks is acquired either through



registration or use.

Spanish Royal Decree of October 26, 1888

As early as the Spanish regime, trademarks were already protected in the Philippines. The *Real Decreto de 26 de octubre de 1888* or the Spanish Royal Decree of October 26, 1888 provided for the concession and use of Philippine trademarks as follows:

*Art. 4. Todo fabricante, comerciante, agricultor ó industrial de otra clase, que individual ó colectivamente desee usar alguna marca para distinguir los productos de una fábrica, los objetos de comercio, las primeras materias agrícolas ú otras cualesquiera, ó la ganadería, y lo mismo los que deseen conservar la propiedad de dibujos y modelos industriales, tendrán que solicitar el certificado de propiedad con arreglo á las prescripciones de este decreto.*

*El que carezca de dicho certificado, no podrá usar marcas ó distintivo alguno para los productos de su industria, ni evitar que otros empleen sus estampaciones ó dibujos industriales.*

xxx xxx xxx

*Art. 21. El derecho á la propiedad de las marcas, dibujos, y modelos industriales que esta disposición reconoce, se adquirirá por el certificado y el cumplimiento de las demás disposiciones que la misma determina.*

Based on the above provisions, one who wished to own and use a trademark had to request for a certificate of ownership in accordance with the royal decree. The use of unregistered trademarks was prohibited. In other words, because trademarks could not be used without first securing the necessary certificate, the ownership of trademarks under the Spanish Royal Decree of October 26, 1888 was acquired only by means of registration.

Act No. 666

The manner of acquiring ownership over trademarks changed during the American period. In 1903, Act No. 666 was enacted, which provided that the ownership of a mark was acquired through actual use thereof. The pertinent provisions of said law are reproduced below:

SECTION 2. Anyone who produces or deals in merchandise of any kind **by actual use thereof** in trade **may appropriate to his exclusive use a trade-mark**, not so appropriated by another, to designate the origin or ownership thereof: *Provided*, That a designation or part of a designation which relates only to the name, quality, or description of the merchandise or geographical place of its production or origin cannot be the subject of a trade-mark.

SECTION 3. **The ownership or possession of a trade-mark, heretofore or hereafter appropriated, as in the foregoing section provided**, shall be recognized and protected in the same manner and to the same extent, as are other property rights known to the law. To this end any person entitled to the exclusive use of a trade-mark to designate the origin or ownership of goods

he has made or deals in may recover damages in a civil action from any person who has sold goods of a similar kind, bearing such trade-mark, and the measure of the damages suffered, at the option of the complaining party, shall be either the reasonable profit which the complaining party would have made had the defendant not sold the goods with the trade-mark aforesaid, or the profit which the defendant actually made out of the sale of the goods with the trade-mark, and in cases where actual intent to mislead the public or to defraud the owner of the trade-mark shall be shown, in the discretion of the court, the damages may be doubled. The complaining party, upon proper showing, may have a preliminary injunction, restraining the defendant temporarily from use of the trade-mark pending the hearing, to be granted or dissolved in the manner provided in the Code of Civil Procedure, and such injunction upon final hearing, if the complainant's property in the trade-mark and the defendant's violation thereof shall be fully established, in these Islands, nor shall it be necessary to show that the trade-mark shall be made perpetual, and this injunction shall be part of the judgment for damages to be rendered in the same cause as above provided.

SECTION 4. In order to justify recovery for violation of trade-mark rights in the preceding sections defined, it shall **not be necessary to show that the trade-marks have been registered under the royal decree of eighteen hundred and eight-eight**, providing for registration of trade-marks in the Philippine Islands, in force during the Spanish sovereignty in these Islands, **nor shall it be necessary to show that the trade mark has been registered under this Act**. It shall be sufficient to invoke protection of his property in a trade-mark if the party complaining shall prove that he has used the trade-mark claimed by him upon his goods a sufficient length of time so that the use of the trade-mark by another would be an injury to him and calculated to deceive the public into the belief that the goods of that other were the goods manufactured or dealt in by the complaining party. (Emphasis and underscoring supplied)

#### R.A. 166

On June 20, 1947, R.A. 166 (Trademark Law) was enacted and approved. It is worth noting that the Trademark Law, as clarified through its subsequent amendment, explicitly stated that actual use was a prerequisite for the ownership of marks.

Section 4 of the Trademark Law stated that the owner of the mark had the right to register the same. Despite not categorically defining who the owner of the mark was, the same section also provided that one could not register a mark that was previously used and not abandoned by another. Consequently, prior use and non-abandonment determined the ownership of the mark because it effectively barred someone else from registering the mark and representing himself to be the owner thereof. In other words, the only person who was entitled to register the mark, and therefore be considered as the owner thereof, was the person who first used and who did not abandon the mark, viz.:

SECTION 4. *Registration of Trade-marks, Trade-names and Service-marks.*  
— **The owner of a trade-mark**, trade-name or service-mark used to distinguish his goods, business or services from the goods, business or

services of others **shall have the right to register the same, unless it:**

xxx xxx xxx

(d) **Consists of or comprises a** mark or trade-name which so resembles a mark or trade-name registered in the Philippines or a **mark or trade-name previously used in the Philippines by another and not abandoned**, as to be likely, when applied to or used in connection with the goods, business or services of the applicant, to cause confusion or mistake or to deceive purchases[.] (Emphasis and underscoring supplied)

### Civil Code

When the Civil Code took effect in 1950, it included the rule that the owner of the trademark was the person, corporation, or firm registering the same, but said rule was made subject to the provisions of special laws. Hence, the manner of acquiring ownership was still through actual use because the special law in effect at that time was the Trademark Law, viz.:

## CHAPTER 3

### TRADEMARKS AND TRADENAMES

ART. 520. A trademark or tradename duly registered in the proper government bureau or office is owned by and pertains to the person, corporation, or firm registering the same, **subject to the provisions of special laws.** (Emphasis supplied)

### Amendment to the Trademark Law

In 1951, the Trademark Law was amended by R.A. 638, which added Section 2-A, among others. As previously mentioned, this amendment explicitly provided that ownership over a mark was acquired through actual use, viz.:

Sec. 2-A. **Ownership of trade-marks, trade-names and service-marks; *how acquired*.** — **Anyone** who lawfully produces or deals in merchandise of any kind or who engages in any lawful business, or who renders any lawful service in commerce, **by actual use thereof in manufacture or trade, in business, and in the service rendered, may appropriate to his exclusive use a trade-mark, a trade-name, or a service-mark not so appropriated by another**, to distinguish his merchandise, business or service from the merchandise, business or services of others. The ownership or possession of a trade-mark, trade-name, service-mark, heretofore or hereafter appropriated, as in this section provided, **shall be recognized and protected in the same manner and to the same extent as are other property rights known to the law.** (Emphasis and underscoring supplied)

### IP Code

Forty-seven years later, upon the effectivity of the IP Code on January 1, 1998, the manner of acquiring ownership of trademarks reverted to registration. This is expressed in Section

122 of the IP Code, viz.:

SECTION 122. *How Marks are Acquired.* — The **rights in a mark shall be acquired through registration made validly in accordance with the provisions of this law.** (Sec. 2-A, R.A. No. 166a) (Emphasis and underscoring supplied)

Related to this, Section 123.1 (d) of the IP Code expresses the first-to-file rule as follows:

SECTION 123. *Registrability.* — 123.1. **A mark cannot be registered if it:**

xxx xxx xxx

(d) Is **identical with a registered mark** belonging to a different proprietor **or a mark with an earlier filing or priority date**, in respect of:

- (i) The same goods or services, or
- (ii) Closely related goods or services, or
- (iii) If it nearly resembles such a mark as to be likely to deceive or cause confusion[.] (Emphasis and underscoring supplied)

To clarify, while it is the fact of registration which confers ownership of the mark and enables the owner thereof to exercise the rights expressed in Section 147 of the IP Code, the first-to-file rule nevertheless prioritizes the first filer of the trademark application and operates to prevent any subsequent applicants from registering marks described under Section 123.1 (d) of the IP Code.

Reading together Sections 122 and 123.1 (d) of the IP Code, therefore, a registered mark or a mark with an earlier filing or priority date generally bars the future registration of — and the future acquisition of rights in — an identical or a confusingly similar mark, in respect of the same or closely-related goods or services, if the resemblance will likely deceive or cause confusion.

The current rule under the IP Code is thus in stark contrast to the rule on acquisition of ownership under the Trademark Law, as amended. To recall, the Trademark Law, as amended, provided that prior use and non-abandonment of a mark by one person barred the future registration of an identical or a confusingly similar mark by a different proprietor when confusion or deception was likely. It also stated that one acquired ownership over a mark by actual use.

Once the IP Code took effect, however, the general rule on ownership was changed and repealed. At present, as expressed in the language of the provisions of the IP Code, prior use no longer determines the acquisition of ownership of a mark in light of the adoption of the rule that ownership of a mark is acquired through registration made validly in accordance with the provisions of the IP Code. Accordingly, the trademark provisions of the IP Code use the term "owner" in relation to registrations. This fact is also apparent when comparing the provisions of the Trademark Law, as amended, and the IP Code, viz.:

Trademark Law, as amended	IP Code
<p>Sec. 4. <i>Registration of trade-marks, trade-names and service-marks on the principal register.</i> — There is hereby established a register of trade-mark, trade-names and service-marks which shall be known as the principal register. The owner of a trade-mark, a trade-name or service-mark used to distinguish his goods, business or services from the goods, business or services of others shall have the right to register the same on the principal register, unless it:</p> <p>(a) Consists of or comprises immoral, deceptive or scandalous matter; or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt or disrepute;</p> <p>(b) Consists of or comprises the flag or coat of arms or other insignia of the Philippines or any of its political subdivisions, or of any foreign nation, or any simulation thereof;</p> <p>(c) Consists of or comprises a name, portrait, or signature identifying a particular living individual except by his written consent, or the name, signature, or portrait of a deceased President of the Philippines, during the life of his widow, if any, except by the written consent of the widow;</p> <p><b>(d) Consists of or comprises a mark or trade-name which so resembles a mark or trade-name registered in the Philippines or a mark or trade-name <u>previously used in the Philippines by another and not abandoned</u>, as to be likely, when applied to or used in connection with the goods, business or services of the applicant, to cause confusion or mistake or to deceive purchasers; or</b></p> <p>xxx xxx xxx (Emphasis supplied)</p>	<p>SECTION 123. <i>Registrability.</i> — 123.1. A mark cannot be registered if it:</p> <p>(a) Consists of immoral, deceptive or scandalous matter, or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt or disrepute;</p> <p>(b) Consists of the flag or coat of arms or other insignia of the Philippines or any of its political subdivisions, or of any foreign nation, or any simulation thereof;</p> <p>(c) Consists of a name, portrait or signature identifying a particular living individual except by his written consent, or the name, signature, or portrait of a deceased President of the Philippines, during the life of his widow, if any, except by written consent of the widow;</p> <p><b>(d) Is identical with a registered mark belonging to a different proprietor or a mark with an earlier filing or priority date, in respect of:</b></p> <p><b>(i) The same goods or services, or</b></p> <p><b>(ii) Closely related goods or services, or</b></p> <p><b>(iii) If it nearly resembles such a mark as to be likely to deceive or cause confusion;</b></p> <p>xxx xxx xxx (Sec. 4, R.A. No. 166a) (Emphasis supplied)</p>

Subparagraph (d) of the above provision of the Trademark Law was amended in the IP Code to, among others, remove the phrase "*previously used in the Philippines by another and not abandoned.*" Under the Trademark Law, as amended, the first user of the mark had the right to file a cancellation case against an identical or confusingly mark registered in good faith by another person. However, with the omission in the IP Code provision of the phrase "*previously used in the Philippines by another and not abandoned,*" said right of the first user is no longer available. In effect, based on the language of the provisions of the IP Code, even if the mark was previously used and not abandoned by another person, a good faith applicant may still register the same and thus become the owner thereof, and the prior user cannot ask for the cancellation of the latter's registration. If the lawmakers had wanted to retain the regime of acquiring ownership through use, this phrase should have been retained in order to avoid conflicts in ownership. The removal of such a right unequivocally shows the intent of the lawmakers to abandon the regime of ownership under the Trademark Law, as amended.

On this point, our esteemed colleagues Associate Justices Leonen and Lazaro-Javier have expressed their doubts regarding the abandonment of the ownership regime under the Trademark Law, as amended, because of the continued requirement of actual use under the IP Code and because of the *prima facie* nature of a certificate of registration. In particular, Sections 124.2 and 145 of the IP Code provide that the applicant/registrant is required to file a Declaration of Actual Use on specified periods, while Section 138 provides that a certificate of registration of a mark shall be *prima facie* evidence of the validity of the registration, the registrant's ownership of the mark, and of the registrant's exclusive right to use the same in connection with the goods or services and those that are related thereto specified in the certificate.

Certainly, while the IP Code and the Rules of the IPO mandate that the applicant/registrant must prove continued actual use of the mark, it is the considered view of the Court that this does not imply that actual use is still a recognized mode of acquisition of ownership under the IP Code. Rather, these must be understood as provisions that require actual use of the mark in order for the registered owner of a mark to **maintain** his ownership.

In the same vein, the *prima facie* nature of the certificate of registration is not indicative of the fact that prior use is still a recognized mode of acquiring ownership under the IP Code. Rather, it is meant to recognize the instances when the certificate of registration is not reflective of ownership of the holder thereof, such as when: [1] the first registrant has acquired ownership of the mark through registration but subsequently lost the same due to non-use or abandonment (e.g., failure to file the Declaration of Actual Use); [2] the registration was done in bad faith; [3] the mark itself becomes generic; [4] the mark was registered contrary to the IP Code (e.g., when a generic mark was successfully registered for some reason); or [5] the registered mark is being used by, or with the permission of, the registrant so as to misrepresent the source of the goods or services on or in connection with which the mark is used.

## ***ii. Legislative intent to abandon the rule that ownership of a mark is acquired through use***

The lawmakers' intention to change the system of acquiring rights over a mark is even more evident in the sponsorship speech of the late Senator Raul Roco for the IP Code. The shift to a new system was brought about by the country's adherence to treaties, and Senator Roco specifically stated that the bill abandons the rule that ownership of a mark is acquired

through use, thus:

Part III of the Code is the new law on trademarks.

On September 27, 1965, Mr. President, the Philippines adhered to the Lisbon Act of the Paris Convention for the Protection of Industrial Property [(Paris Convention)]. This obliged the country to introduce a system of registration of marks of nationals of member-countries of the Paris Convention which is based not on use in the Philippines but on foreign registration. This procedure is defective in several aspects: first, it provides to a foreign applicant a procedure which is less cumbersome compared to what is required of local applicants who need to establish prior use as a condition for filing a trademark; and second, it is incompatible with the "based on use" principle which is followed in the present Trademark Law.

Furthermore, Mr. President, our adherence to the Paris Convention binds us to protect well-known marks. Unfortunately, the provisions of 6*bis* of the Paris Convention on this matter are couched in broad terms which are not defined in the Convention. This has given rise to litigation between local businessmen using the mark and foreigners who own the well-known marks. The conflicting court decisions on this issue aggravate the situation and they are a compendium of contradictory cases.

**The proposed [IP] Code seeks to correct these defects and provides solutions to these problems and make a consistency in ruling for future purposes.**

To comply with [the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement)] and other international commitments, **this bill no longer requires prior use of the mark as a requirement for filing a trademark application. It also abandons the rule that ownership of a mark is acquired through use by now requiring registration of the mark in the Intellectual Property Office.** Unlike the present law, it establishes one procedure for the registration of marks. This feature will facilitate the registration of marks.

Senate Bill No. 1719 also no longer requires use or registration in the Philippines for the protection of well-known marks. If the mark is registered, such registration can prohibit its use by another in connection with goods or services which are not similar to those with respect to which the registration is applied for. This resolves many of the questions that have remained unanswered by present law and jurisprudence. (Emphasis and underscoring supplied)

The legislative intent to abandon the rule that ownership is acquired through use and to adopt the rule that ownership is acquired through registration is therefore crystal clear. On this score, Justice Leonen prudently cautions against deriving legislative intent from these deliberations, especially since they are limited to the opinions of those present, and neither consider the opinions of those who did not or were not able to speak, nor do they account for changing circumstances. While this may be true, the Court is of the considered view that this does not mean that its interpretation of the statute based on such deliberations is

inaccurate or wrong, especially in this case because, at the risk of belaboring the point, the provisions of the IP Code and the legislative deliberations are consistent in showing that the regime of ownership under the Trademark Law, as amended, has been abandoned.

***iii. Rule on ownership based on prior use in Berris and E.Y. Industrial Sales, Inc. inconsistent with the IP Code regime of ownership through registration***

As mentioned, Zuneca argues that as the prior user, following Berris and E.Y. Industrial Sales, Inc., it had already owned the "ZYNAPS" mark prior to Natrapharm's registration of its confusingly similar mark, thus, its rights prevail over the rights of Natrapharm.

As will be further explained, however, a closer look at the cases cited by Zuneca reveals that the rule on ownership used in resolving these cases is inconsistent with the rule on acquisition of ownership through registration under the IP Code.

In Berris, Norvy Abyadang (Abyadang) filed a trademark application for "NS D-10 PLUS" in 2004. This was opposed by Berris Agricultural Co., Inc. (Berris, Inc.) on the ground that it was confusingly similar to its registered mark, "D-10 80 WP," which was applied for in 2002 and eventually registered in 2004. The marks were indeed found to be confusingly similar. However, in ruling that Berris, Inc. was the rightful owner of the mark, the Court did not just decide based on the fact that Berris, Inc. filed the application and registered the mark prior to Abyadang. Instead, it also contained the following discussion with the conclusion that actual use was required to own a mark:

The basic law on trademark, infringement, and unfair competition is [the IP Code], specifically Sections 121 to 170 thereof. It took effect on January 1, 1998. Prior to its effectivity, the applicable law was [the Trademark Law], as amended.

Interestingly, [the IP Code] did not expressly repeal in its entirety [the Trademark Law, as amended], but merely provided in Section 239.1 that [a]cts and parts of [a]cts inconsistent with it were repealed. In other words, only in the instances where a substantial and irreconcilable conflict is found between the provisions of [the IP Code] and of [the Trademark Law, as amended] would the provisions of the latter be deemed repealed.

[The IP Code] defines a "mark" as any visible sign capable of distinguishing the goods (trademark) or services (service mark) of an enterprise and shall include a stamped or marked container of goods. It also defines a "collective mark" as any visible sign designated as such in the application for registration and capable of distinguishing the origin or any other common characteristic, including the quality of goods or services of different enterprises which use the sign under the control of the registered owner of the collective mark.

On the other hand, [the Trademark Law, as amended] defines a "trademark" as any distinctive word, name, symbol, emblem, sign, or device, or any combination thereof, adopted and used by a manufacturer or merchant on his goods to identify and distinguish them from those manufactured, sold, or dealt by another. A trademark, being a special property, is afforded protection by law. But for one to enjoy this legal protection, x x x ownership of the



trademark should rightly be established.

**The ownership of a trademark is acquired by its registration and its actual use by the manufacturer or distributor of the goods made available to the purchasing public.** Section 122 of [the IP Code] provides that the rights in a mark shall be acquired by means of its valid registration with the IPO. A certificate of registration of a mark, once issued, constitutes *prima facie* evidence of the validity of the registration, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the same in connection with the goods or services and those that are related thereto specified in the certificate. [The IP Code], however, requires the applicant for registration or the registrant to file a declaration of actual use (DAU) of the mark, with evidence to that effect, within three (3) years from the filing of the application for registration; otherwise, the application shall be refused or the mark shall be removed from the register. In other words, the *prima facie* presumption brought about by the registration of a mark may be challenged and overcome, in an appropriate action, by proof of the nullity of the registration or of non-use of the mark, except when excused. **Moreover, the presumption may likewise be defeated by evidence of prior use by another person, i.e., it will controvert a claim of legal appropriation or of ownership based on registration by a subsequent user. This is because a trademark is a creation of use and belongs to one who first used it in trade or commerce.** (Citations omitted; emphasis and underscoring supplied)

In Berris, despite the fact that Berris, Inc. was eventually decided to be the owner of the mark consistent with the rule on ownership under the IP Code, the Court mistakenly gave undue weight to the fact of prior use. To be sure, it was unnecessary to also anchor Berris, Inc.'s ownership of the mark on the fact that it was the prior user as this was inconsistent with the express provisions of the IP Code and the legislative intent behind the law. Stated differently, the Court's decision in Berris was correct based on the fact that Berris, Inc. was the first to file the application and register the mark.

Significantly, in giving weight to the fact of prior use, the Court cited the author Ruben E. Agpalo who had, in turn, cited jurisprudence decided under the Trademark Law, as amended. As a result, the rule that prior use was determinative of ownership was also used to resolve the issue of ownership in Berris. As stated, however, this is contrary to the IP Code.

To repeat, after the IP Code became effective starting 1998, use was no longer required in order to acquire or perfect ownership of the mark. In this regard, the Court now rectifies the inaccurate statement in Berris that "[t]he ownership of a trademark is acquired by its registration **and its actual use.**" The rectified statement should thus read: "Under the IP Code, the ownership of a trademark is acquired by its registration." Any pronouncement in Berris inconsistent herewith should be harmonized accordingly. To clarify, while subsequent use of the mark and proof thereof are required to prevent the removal or cancellation of a registered mark or the refusal of a pending application under the IP Code, this should not be taken to mean that actual use and proof thereof are necessary before one can own the mark or exercise the rights of a trademark owner.

Likewise, the rule on acquiring ownership discussed in E.Y. Industrial Sales, Inc. is inconsistent with the current rule under the IP Code. In said case, E.Y. Industrial Sales, Inc. (EYIS) imported air compressors from Shen Dar from 1997 to 2004. In 1997, during the effectivity of the Trademark Law, as amended, Shen Dar filed a trademark application for "VESPA, Chinese Characters and Device" for use on air compressors and welding machines. Subsequently, in 1999, or already during the effectivity of the IP Code, EYIS filed a trademark application for "VESPA" for use on air compressors. On January 18, 2004, the IPO issued the certificate of registration for "VESPA" in favor of EYIS. Subsequently, on February 8, 2007, the certificate of registration for "VESPA, Chinese Characters and Device" was issued in favor of Shen Dar.

Claiming to be the owner of the mark, Shen Dar filed a petition to cancel EYIS's certificate of registration. The Bureau of Legal Affairs (BLA) and the Director General of the IPO both ruled that EYIS was the owner of the mark and likewise directed the cancellation of Shen Dar's certificate of registration.

Once the case reached the Court, the dispute was resolved in favor of EYIS. The *ponencia* cited Section 123.1 (d), the first-to-file rule adopted by the IP Code, and likewise included the following discussion in *Shangri-la International Hotel Management, Ltd. v. Developers Group of Companies, Inc.*, (Shangri-la) in concluding that the prior user EYIS was the owner of the mark, viz.:

In any event, given the length of time already invested by the parties in the instant case, this Court must write *finis* to the instant controversy by determining, once and for all, the true owner of the mark "VESPA" based on the evidence presented.

[The IP Code] espouses the "first-to-file" rule as stated under Sec. 123.1 (d) which states:

Section 123. Registrability. — 123.1. A mark cannot be registered if it:

xxx xxx xxx

(d) Is identical with a registered mark belonging to a different proprietor or a mark with an earlier filing or priority date, in respect of:

- (i) The same goods or services, or
- (ii) Closely related goods or services, or
- (iii) If it nearly resembles such a mark as to be likely to deceive or cause confusion. x x x

Under this provision, the registration of a mark is prevented with the filing of an earlier application for registration. **This must not, however, be interpreted to mean that ownership should be based upon an earlier filing date. While [the IP Code] removed the previous requirement of proof of actual use prior to the filing of an application for registration of**

**a mark, proof of prior and continuous use is necessary to establish ownership of a mark. Such ownership constitutes sufficient evidence to oppose the registration of a mark.**

Sec. 134 of the IP Code provides that "any person who believes that he would be damaged by the registration of a mark x x x" may file an opposition to the application. The term "any person" encompasses the true owner of the mark — the prior and continuous user.

**Notably, the Court has ruled that the prior and continuous use of a mark may even overcome the presumptive ownership of the registrant and be held as the owner of the mark. As aptly stated by the Court in [*Shangri-la*]:**

Registration, without more, does not confer upon the registrant an absolute right to the registered mark. The certificate of registration is merely a *prima facie* proof that the registrant is the owner of the registered mark or trade name. Evidence of prior and continuous use of the mark or trade name by another can overcome the presumptive ownership of the registrant and may very well entitle the former to be declared owner in an appropriate case.

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Ownership of a mark or trade name may be acquired not necessarily by registration but by adoption and use in trade or commerce. As between actual use of a mark without registration, and registration of the mark without actual use thereof, the former prevails over the latter. For a rule widely accepted and firmly entrenched, because it has come down through the years, is that actual use in commerce or business is a pre-requisite to the acquisition of the right of ownership.

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By itself, registration is not a mode of acquiring ownership. When the applicant is not the owner of the trademark being applied for, he has no right to apply for registration of the same. Registration merely creates a *prima facie* presumption of the validity of the registration, of the registrant's ownership of the trademark and of the exclusive right to the use thereof. Such presumption, just like the presumptive regularity in the performance of official functions, is rebuttable and must give way to evidence to the contrary. (Citations omitted and emphasis supplied)

However, a careful reading of *Shangri-la* will unmistakably show that, despite having been promulgated in 2006, the applicable law of the case was the Trademark Law, as amended, considering the following excerpts:

While the present law on trademarks has dispensed with the requirement of prior actual use at the time of registration, **the law in force at the time of registration[, i.e., the Trademark Law, as amended,] must be applied,** and thereunder it was held that as a condition precedent to registration of trademark, trade name or service mark, the same must have been in actual use in the Philippines before the filing of the application for registration. Trademark is a creation of use and therefore actual use is a pre-requisite to exclusive ownership and its registration with the Philippine Patent Office is a mere administrative confirmation of the existence of such right.

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However, while the Philippines was already a signatory to the *Paris Convention*, **the [IP Code] only took effect on January 1, 19[9]8, and in the absence of a retroactivity clause, [the Trademark Law, as amended] still applies.** x x x (Emphasis and underscoring supplied)

It is worth noting that in *E.Y. Industrial Sales, Inc.*, the Court upheld the factual finding that the first actual use by EYIS was earlier than Shen Dar's. The earliest dates of use by both parties therein were **during the effectivity of the Trademark Law, as amended.** It is also important to reiterate that EYIS had applied and registered the mark under the IP Code, while Shen Dar had applied for the mark under the Trademark Law, as amended, and its registration was obtained after the effectivity of the IP Code.

To be sure, the rule used to resolve the issue of ownership in *E.Y. Industrial Sales, Inc.* and *Shangri-la* should not be made to apply in a situation involving marks which are both used and/or registered after the effectivity of the IP Code. In the case at bar, **both "ZYNAPS" and "ZYNAPSE" have been used and/or registered after the IP Code became effective.** Clearly, the use or citation of Trademark Law jurisprudence to resolve the question on acquisition of ownership of marks in the case at bar or in cases involving marks registered or first used under the IP Code will be irrelevant and inappropriate.

In light of the foregoing, Zuneca thus erred in using *Berris* and *E.Y. Industrial Sales, Inc.* as bases for its argument that the prior user is the owner of the mark and its rights prevail over the rights of the first-to-file registrant. To emphasize, for marks that are first used and/or registered after the effectivity of the IP Code, ownership is no longer dependent on the fact of prior use in light of the adoption of the first-to-file rule and the rule that ownership is acquired through registration.

## **II. Bad faith and good faith in trademark registration and use**

In a bid to invalidate Natrapharm's rights as first registrant, Zuneca further argues that Natrapharm had registered the mark fraudulently and in bad faith.

The existence of bad faith in trademark registrations may be a ground for its cancellation at any time by filing a petition for cancellation under Section 151 (b) of the IP Code, viz.:

SECTION 151. *Cancellation.* — 151.1. **A petition to cancel a registration of a mark under this Act may be filed** with the Bureau of Legal Affairs by any person who believes that he is or will be damaged by the registration of a

mark under this Act as follows:

(a) Within five (5) years from the date of the registration of the mark under this Act.

(b) **At any time, if** the registered mark becomes the generic name for the goods or services or a portion thereof, for which it is registered, or has been abandoned, or **its registration was obtained fraudulently** or contrary to the provisions of this Act, or if the registered mark is being used by, or with the permission of, the registrant so as to misrepresent the source of the goods or services on or in connection with which the mark is used. If the registered mark becomes the generic name for less than all of the goods or services for which it is registered, a petition to cancel the registration for only those goods or services may be filed. A registered mark shall not be deemed to be the generic name of goods or services solely because such mark is also used as a name of or to identify a unique product or service. The primary significance of the registered mark to the relevant public rather than purchaser motivation shall be the test for determining whether the registered mark has become the generic name of goods or services on or in connection with which it has been used. (n)

(c) At any time, if the registered owner of the mark without legitimate reason fails to use the mark within the Philippines, or to cause it to be used in the Philippines by virtue of a license during an uninterrupted period of three (3) years or longer. (Emphasis supplied)

Notably, this ground for cancelling marks was already present under the Trademark Law, as amended. The table below shows how the language in the IP Code provision mirrors the provision under the Trademark Law, as amended:

Trademark Law, as amended	IP Code
CHAPTER IV  Cancellation of Registration  SECTION 17. <i>Grounds for Cancellation.</i> — <b>Any person, who believes that he is or will be damaged by the registration of a mark or trade-name, may, upon the payment of the prescribed fee, apply to cancel said registration upon any of the following grounds:</b>	SECTION 151. <i>Cancellation.</i> — 151.1. <b>A petition to cancel a registration of a mark under this Act may be filed</b> with the Bureau of Legal Affairs by any person who believes that he is or will be damaged by the registration of a mark under this Act as follows:  xxx xxx xxx  (b) At any time, if the registered mark becomes the generic name for the goods or services, or a portion thereof, for which it is registered, or has been abandoned, or its <b><u>registration was obtained fraudulently or contrary to the provisions of this Act</u></b> , or if the registered mark is being used by, or with the permission of, the registrant so as to misrepresent the source of the goods or services on or in connection with which the mark is used. If the

<p>(a) That the registered mark or trade-name becomes the common descriptive name of an article or substance on which the patent has expired;</p> <p>(b) That it has been abandoned;</p> <p>(c) <b><u>That the registration was obtained fraudulently or contrary to the provisions of section four, Chapter II hereof;</u></b></p> <p>(d) That the registered mark or trade-name has been assigned, and is being used by, or with the permission of, the assignee so as to misrepresent the source of the goods, business or services in connection with which the mark or trade-name is used; or</p> <p>(e) That cancellation is authorized by other provisions of this Act. (Emphasis and underscoring supplied)</p>	<p>registered mark becomes the generic name for less than all of the goods or services for which it is registered, a petition to cancel the registration for only those goods or services may be filed. A registered mark shall not be deemed to be the generic name of goods or services solely because such mark is also used as a name of or to identify a unique product or service. The primary significance of the registered mark to the relevant public rather than purchaser motivation shall be the test for determining whether the registered mark has become the generic name of goods or services on or in connection with which it has been used. (Emphasis and underscoring supplied)</p>
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Resultantly — unlike the rule on acquisition of ownership — the pronouncements of the Court relative to registrations obtained in bad faith under the Trademark Law, as amended, still subsist even after the effectivity of the IP Code. Thus, the following cases where the Court defined bad faith and fraud, although decided under the regime of the Trademark Law, as amended, are still applicable.

The concepts of bad faith and fraud were defined in *Mustang-Bekleidungswerke GmbH + Co. KG v. Hung Chiu Ming*, a case decided by the Office of the Director General of the IPO under the Trademark Law, as amended, viz.:

What constitutes fraud or bad faith in trademark registration? Bad faith means that the applicant or registrant has knowledge of prior creation, use and/or registration by another of an identical or similar trademark. In other words, it is copying and using somebody else's trademark. Fraud, on the other hand, may be committed by making false claims in connection with the trademark application and registration, particularly, on the issues of origin, ownership, and use of the trademark in question, among other things.

The concept of fraud contemplated above is not a mere inaccurate claim as to the origin, ownership, and use of the trademark. In civil law, the concept of fraud has been defined as the deliberate intention to cause damage or prejudice. The same principle applies in the context of trademark registrations: fraud is intentionally making false claims to take advantage of another's goodwill thereby causing damage or prejudice to another. Indeed,

the concepts of bad faith and fraud go hand-in-hand in this context. There is no distinction between the concepts of bad faith and fraud in trademark registrations because the existence of one necessarily presupposes the existence of the other.

Shangri-la supports the definition of bad faith in trademark registrations as knowledge by the registrant of prior creation, use, and/or registration by another of an identical or similar trademark. In said case, since respondent Developers Group of Companies, Inc.'s (DGI) president was a previous guest at one of petitioner's hotels, it was found that DGI was in bad faith when it appropriated and registered the "SHANGRI-LA" mark and the "S" logo, viz.:

The CA itself, in its Decision of May 15, 2003, found that the respondent's president and chairman of the board, **Ramon Syhunliong, had been a guest at the petitioners' hotel before he caused the registration of the mark and logo, and surmised that he must have copied the idea there[.]**

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To jump from a recognition of the fact that the mark and logo must have been copied to a rationalization for the possibility that both the petitioners and the respondent coincidentally chose the same name and logo is not only contradictory, but also manifestly mistaken or absurd. Furthermore, the "S" logo appears nothing like the "Old English" print that the CA makes it out to be, but is obviously a symbol with oriental or Asian overtones. **At any rate, it is ludicrous to believe that the parties would come up with the exact same lettering for the word "Shangri-La" and the exact same logo to boot.** As correctly observed by the petitioners, to which we are in full accord:

x x x **When a trademark copycat adopts the word portion of another's trademark as his own, there may still be some doubt that the adoption is intentional. But if he copies not only the word but also the word's exact font and lettering style and in addition, he copies also the logo portion of the trademark, the slightest doubt vanishes. It is then replaced by the certainty that the adoption was deliberate, malicious and in bad faith.**

It is truly difficult to understand why, of the millions of terms and combination of letters and designs available, the respondent had to choose exactly the same mark and logo as that of the petitioners, if there was no intent to take advantage of the goodwill of petitioners' mark and logo.

One who has imitated the trademark of another cannot bring an action for infringement, particularly against the true owner of the mark, because he would be coming to court with unclean hands. **Priority is of no avail to the bad faith plaintiff. Good faith is required in order to ensure that a second user may not merely take advantage of the goodwill established by the true owner.** (Emphasis supplied)

Pagasa Industrial Corporation v. Court of Appeals 113 likewise supports the definition of bad faith as prior knowledge. In said case, the Court found that Pagasa registered the "YKK" mark in bad faith because it had previously known that there was another person using the

mark. Hence, the Court affirmed the cancellation of the mark as decided by the Director of Patents and the CA:

Pagasa appealed to the [CA] which in its decision dated February 6, 1980 affirmed the cancellation. **It found that prior to 1968 Pagasa knew that Yoshida was the registered owner and user of the YKK trademark which is an acronym of its corporate name.**

Tadao Yoshida, the president of Yoshida, and Tsutomu Isaka, the export manager, visited in 1960 (1965) Pagasa's factory which was manufacturing zippers under the *Royal brand*. Anacleto Chi, Pagasa's president, visited in turn Yoshida's factory in Toyoma, Japan.

The Appellate Court concluded that **Pagasa's knowledge that Yoshida was using the YKK trademark** precludes the application of the equitable principle of laches, estoppel and acquiescence. **It noted that Pagasa acted in bad faith. As observed by Yoshida's counsel, Pagasa's registration of YKK as its own trademark was an act of ingratitude.**

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Pagasa cannot rely on equity because he who comes into equity must come with clean hands. Equity refuses to lend its aid in any manner to one seeking its active interposition who has been guilty of unlawful or inequitable conduct in the matter with relation to which he seeks relief (30 C.J.S. 1009).

"Registration is sufficient *prima facie* proof that all acts necessary to entitle the mark to registration were duly performed." (87 C.J.S. 421). Obviously, Yoshida's prior registration is superior and must prevail. (Emphasis and underscoring supplied)

*Birkenstock Orthopaedie GmbH and Co. KG v. Phil. Shoe Expo Marketing Corp.* also involved a finding that a party was in bad faith because it had known of the existence and use by another person of the mark before said party appropriated and registered the same, viz.:

In view of the foregoing circumstances, **the Court finds** the petitioner to be the true and lawful owner of the mark "BIRKENSTOCK" and entitled to its registration, and **that respondent was in bad faith in having it registered in its name**. In this regard, the Court quotes with approval the words of the IPO Director General, viz.:

The facts and evidence fail to show that [respondent] was in good faith in using and in registering the mark BIRKENSTOCK. BIRKENSTOCK, obviously of German origin, is a highly distinct and arbitrary mark. It is very remote that two persons did coin the same or identical marks. To come up with a highly distinct and uncommon mark previously appropriated by another, for use in the same line of business, and without any plausible explanation, is incredible. The field from which a person may select a trademark is practically unlimited. As in all



other cases of colorable imitations, the unanswered riddle is why, of the millions of terms and combinations of letters and designs available, [respondent] had to come up with a mark identical or so closely similar to the [petitioner's] if there was no intent to take advantage of the goodwill generated by the [petitioner's] mark. **Being on the same line of business, it is highly probable that the [respondent] knew of the existence of BIRKENSTOCK and its use by the [petitioner], before [respondent] appropriated the same mark and had it registered in its name.** (Emphasis supplied)

More importantly, however, there is also jurisprudential basis to declare these trademark registrations done in bad faith as void. In the case of *Shangri-La International Hotel Management, Ltd. v. Developers Group of Companies, Inc. (Shangri-la Resolution)*, the Court classified the respondent's registration as **void** due to the existence of bad faith and because it failed to comply with the provisions of the Trademark Law, as amended.

While the Court in the *Shangri-la Resolution* declared the trademark registration as void based on two grounds, *i.e.*, the presence of bad faith **and** the fact that the mark was registered contrary to provisions of the law, either one of these grounds may be used as sufficient basis for the courts or the IPO to declare trademark registrations as void.

A perusal of the above cancellation provisions in the IP Code and the Trademark Law, as amended, would reveal that these two grounds differ from the others in the sense that, unlike the other grounds for cancellation, they both exist prior to the registration. That is, one can have a registration in bad faith only if he applied for the registration of the mark despite knowing that someone else has created, used, or registered that mark. In the same vein, an unregistrable mark which was mistakenly allowed to be registered was already inherently unregistrable even prior to its registration. Accordingly, because these marks **should not have been registered in the first place**, the presence of either of these grounds renders them void. Thus, even if these marks subsequently became registered, the registrations do not confer upon their owners the rights under Section 147.1 of the IP Code because the marks were registered contrary to the provisions of the same law.

To emphasize, the presence of bad faith alone renders void the trademark registrations. Accordingly, it follows as a matter of consequence that a mark registered in bad faith shall be cancelled by the IPO or the courts, as the case may be, after the appropriate proceedings.

This concept of bad faith, however, does not only exist in registrations. To the mind of the Court, the definition of bad faith as knowledge of prior creation, use and/or registration by another of an identical or similar trademark is also applicable in the use of trademarks without the benefit of registration. Accordingly, such bad faith use is also appropriately punished in the IP Code as can be seen in its unfair competition provisions.

It is apparent, therefore, that the law intends to deter registrations and use of trademarks in bad faith.

Concurrent with these aims, the law also protects prior registration and prior use of trademarks in good faith.

Being the first-to-file registrant in good faith allows the registrant to acquire all the rights in a mark. This can be seen in Section 122 *vis-à-vis* the cancellation provision in Section 155.1 of the IP Code. Reading these two provisions together, it is clear that when there are no grounds for cancellation — especially the registration being obtained in bad faith or contrary to the provisions of the IP Code, which render the registration void — the first-to-file registrant acquires all the rights in a mark, thus:

**SECTION 122. *How Marks are Acquired.* — The rights in a mark shall be acquired through registration made validly in accordance with the provisions of this law.** (Sec. 2-A, R.A. No. 166a)

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**SECTION 151. *Cancellation.* — 151.1.** A petition to cancel a registration of a mark under this Act may be filed with the Bureau of Legal Affairs by any person who believes that he is or will be damaged by the registration of a mark under this Act as follows:

(a) Within five (5) years from the date of the registration of the mark under this Act.

(b) At any time, if the registered mark becomes the generic name for the goods or services, or a portion thereof, for which it is registered, or has been abandoned, or **its registration was obtained fraudulently or contrary to the provisions of this Act**, or if the registered mark is being used by, or with the permission of, the registrant so as to misrepresent the source of the goods or services on or in connection with which the mark is used. If the registered mark becomes the generic name for less than all of the goods or services for which it is registered, a petition to cancel the registration for only those goods or services may be filed. A registered mark shall not be deemed to be the generic name of goods or services solely because such mark is also used as a name of or to identify a unique product or service. The primary significance of the registered mark to the relevant public rather than purchaser motivation shall be the test for determining whether the registered mark has become the generic name of goods or services on or in connection with which it has been used. (n)

(c) At any time, if the registered owner of the mark without legitimate reason fails to use the mark within the Philippines, or to cause it to be used in the Philippines by virtue of a license during an uninterrupted period of three (3) years or longer. (Emphasis and underscoring supplied)

In the same vein, prior users in good faith are also protected in the sense that they will not be made liable for trademark infringement even if they are using a mark that was subsequently registered by another person. This is expressed in Section 159.1 of the IP Code, which reads:

SECTION 159. *Limitations to Actions for Infringement.* — Notwithstanding any other provision of this Act, the remedies given to the owner of a right infringed under this Act shall be limited as follows:

159.1. Notwithstanding the provisions of Section 155 hereof, a registered mark shall have no effect against any person who, in good faith, before the filing date or the priority date, was using the mark for the purposes of his business or enterprise: Provided, That his right may only be transferred or assigned together with his enterprise or business or with that part of his enterprise or business in which the mark is used. (Underscoring supplied)

### **III. *The resolution of the controversy***

At this point, it is important to highlight that the following facts were no longer questioned by both parties: (a) Natrapharm is the registrant of the "ZYNAPSE" mark which was registered with the IPO on September 24, 2007; (b) Zuneca has been using the "ZYNAPS" brand as early as 2004; and (c) "ZYNAPSE" and "ZYNAPS" are confusingly similar and both are used for medicines.

In light of these settled facts, it is clear that Natrapharm is the first-to-file registrant of "ZYNAPSE." Zuneca, on the other hand, is a prior user in good faith of a confusingly similar mark, "ZYNAPS." What remains contentious is Natrapharm's good or bad faith as Zuneca contends that the mark was registered in bad faith by Natrapharm. Indeed, if Zuneca's contention turns out to be true, Natrapharm would not be the owner of "ZYNAPSE" and it would not have the right under Section 147.1 of the IP Code to prevent other entities, including Zuneca, from using confusingly similar marks for identical or similar goods or services. Further, Natrapharm's infringement case would fail because its "ZYNAPSE" registration would then be voided.

To be sure, the finding of good faith or bad faith is a matter of factual determination. Considering that a petition for review on *certiorari* under Rule 45 should only raise questions of law, it is improper to put into issue at this juncture the existence of bad faith in Natrapharm's registration.

Further, it is a well-recognized rule that the factual findings of the RTC, its calibration of the testimonies of the witnesses, and its assessment of their probative weight are given high respect, if not conclusive effect, unless cogent facts and circumstances of substance, which if considered, would alter the outcome of the case, were ignored, misconstrued or misinterpreted.

Assuming, however, that the Court should still review this factual issue, it finds no reason to depart from the findings of facts of the RTC, which findings were affirmed by the CA. In fact, the Court also conducted a review of the testimonies and evidence presented by the parties and finds that the RTC and the CA were correct in their factual findings.

The RTC ruled that there was no sufficient evidence to convince it that Natrapharm had acquired the registration in bad faith. The RTC ruled as follows:

Apparently claiming an exception to the first-to-register rule, the defendants [Zuneca] insist that the plaintiff [Natrpharm] knew of the existence of ["ZYNAPS"] at the time the plaintiff filed its application for registration. The

defendants support this position by presenting a copy of the Philippine Pharmaceutical Directory (PPD) where ["ZYNAPS"] is listed on the same page as the other brand names of the plaintiff.

However, defendant Arain admitted on cross[-]examination that even if ["ZYNAPS"] was listed in the PPD, this does not give her complete knowledge of the brand names of the other pharmaceuticals also listed in the same Directory. [Consistent] with this admission, plaintiff should also be accorded the benefit of the doubt that it could not have complete knowledge of the other brand names listed in the PPD.

Likewise, the defendants claim that in some medical conventions where Patriot, the sister company of the plaintiff, attended, the ["ZYNAPS"] product of the defendants was advertised and displayed.

It was, however, clearly shown that Patriot is not the same company as the plaintiff. It could not be safely concluded that [the plaintiff] knew of ["ZYNAPS"] through Patriot.

In both arguments, this Court finds no sufficient evidence to convince it that there was bad faith in the registration made by the plaintiff.

The CA thereafter upheld the finding of the RTC that Natrapharm was not aware of the existence of "ZYNAPS" prior to the registration of "ZYNAPSE." The CA quoted and affirmed the foregoing findings of the RTC.

The CA added that Natrapharm's good faith was established through the testimony of Natrapharm's witness, Ravelo, whose testimony essentially contained the following points: (a) Natrapharm had used the BFAD and IPO databases and the Philippine Pharmaceutical Index (PPI) — a research tool accepted by the Philippine pharmaceutical industry which contains pharmaceutical products marketed in the Philippines — in determining whether "ZYNAPSE" was confusingly similar to an existing brand name in the market; (b) only Ravelo, Mr. Gasgonia, Natrapharm's Chief Operations Officer, and Mrs. Agnes Casiding, Natrapharm's Regulatory Manager, knew about the launch of the new product; (c) she had based the name "ZYNAPSE" from an internal newsletter in the Philippine Neurological Association as well as from the neurological term "synapse" — the junction between two nerves where they transmit nerve signals — which relates to the neurological problem of stroke; (d) she had checked the PPI as far back as fourth quarter of 2004 and found that there was no confusingly similar name; and (e) she had then submitted the name to Natrapharm's trademark lawyers who had it registered with the IPO and then with the BFAD.

The CA thus concluded that Zuneca failed to prove that Natrapharm had registered "ZYNAPSE" in bad faith, viz.:

This Court would also like to add that even if both Zuneca and Natrapharm have interacted with each other through a convention, it does not automatically mean that Natrapharm already acted in bad faith in registering "ZYNAPSE." First, just like the PPD, it is highly unlikely that the participants would remember each and every medicine or drug exhibited during said convention. Secondly, the convention happened two (2) years prior to the registration of "ZYNAPSE" and it is not proven that those who attended the

convention on the part of Natrapharm were the same people who were responsible for the creation of "ZYNAPSE" or that they were still connected with Natrapharm in 2007. **As a rule, good faith is always presumed, and upon him who alleges bad faith on the part of a possessor rests the burden of proof. The appellants, however, miserably failed to carry that burden.** (Emphasis supplied)

The Court affirms the factual findings of the lower courts. Since Zuneca is making the allegations of bad faith, it was incumbent on Zuneca to overcome the evidence that Natrapharm was the owner of the mark "ZYNAPSE" and to show that Natrapharm had registered "ZYNAPSE" in bad faith. However, Zuneca failed to show that the registration was made fraudulently or in bad faith. In contrast, Natrapharm was able to convince the lower courts, as it likewise convinces this Court, that it had acted in good faith when it came up with the name "ZYNAPSE" and that it had no knowledge of Zuneca's use of "ZYNAPS" after it had checked the PPI, BFAD, and IPO databases.

Zuneca's evidence clearly falls short of establishing that Natrapharm had knowledge of the prior creation or use by Zuneca of the "ZYNAPS" mark. Zuneca's evidence only tends to prove that there was a possibility that someone from Natrapharm might have known of Zuneca's use of "ZYNAPS" because Natrapharm and Zuneca attended the same conferences and that Zuneca had listed "ZYNAPS" in the PPD publication.

Such possibility is not, however, sufficient to prove bad faith, especially when weighed against Natrapharm's evidence and explanation on how it coined "ZYNAPSE" and the steps it took to ensure that there were no other marks that were confusingly similar to it. Not only was Natrapharm able to explain the origin of the name, it was also able to show that it had checked the IMS-PPI, IPO, and BFAD databases and found that there was no brand name which was confusingly similar to "ZYNAPSE."

Since Natrapharm was not shown to have been in bad faith, it is thus considered to have acquired all the rights of a trademark owner under the IP Code upon the registration of the "ZYNAPSE" mark.

Consequently, Zuneca's counterclaims against Natrapharm were correctly dismissed by the lower courts. To be sure, Zuneca did not have any right to prevent third parties, including Natrapharm, from using marks confusingly similar to its unregistered "ZYNAPS" mark because it is not an "owner of a registered mark" contemplated in Section 147.1 of the IP Code.

In any event, while Natrapharm is the owner of the "ZYNAPSE" mark, this does not, however, automatically mean that its complaint against Zuneca for injunction, trademark infringement, damages, and destruction with prayer for TRO and/or preliminary injunction should be granted. The application of Section 159.1 of the IP Code in the case at bar results in Zuneca's exemption from liability for trademark infringement.

On the interpretation of Section 159.1 of the IP Code, Natrapharm argues that the limitation to actions for infringement under this section means that only acts prior to the filing and/or claim of priority of the registered mark are exempted. The good faith prior user's use of the mark subsequent to the filing and/or registration date is, however, no longer exempted and makes the prior user liable for infringement. This echoes the CA which held that:

Moreover, the supremacy of the prior registrant over the prior user is further elucidated in Section 159.1 of the same law x x x.

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**Based on [said] provision, it is manifest that the prior-registrant (*sic*) cannot run after the prior-user (*sic*) for any usage before the registration, but not after, as indicated by the helping verb "was" in the phrase "was using the mark for the purposes of his business or enterprise." (Emphasis supplied)**

The Court believes, and so holds, that the above interpretation is erroneous.

If Section 159.1 of the IP Code is only meant to exempt from an action for infringement the use in good faith prior to the filing or priority date of the subsequently registered mark, then this entire provision would be rendered useless and a mere surplusage. Stated otherwise, there is no point in adding Section 159.1 of the IP Code as an exception under "Limitations to Actions for Infringement" because it merely repeats the general rule that, after the mark has been registered, the registrant may file an infringement case against third parties using an identical or confusingly similar mark in commerce without its consent, when such use results in a likelihood of confusion. Even without Section 159.1 of the IP Code, a third party's prior use of an unregistered mark, if said mark subsequently becomes registered by another, could not be considered as trademark infringement because there was no trademark registration — a requirement for a trademark infringement action to prosper — when the third party was using its mark.

More importantly, the proviso of Section 159.1 of the IP Code states: "[t]hat [the good faith prior user's] right may only be transferred or assigned together with his enterprise or business or with that part of his enterprise or business in which the mark is used." To adhere to the theories of the CA and Natrapharm that the prior user's use of the identical or confusingly similar mark subsequent to the filing or registration date of the registered mark should be considered as trademark infringement renders this proviso useless and nugatory and logically subjects the possible transferee or assignee to inevitable liability for trademark infringement. The lawmakers could not have intended this absurd outcome.

Read as a whole, Section 159.1 of the IP Code clearly contemplates **that a prior user in good faith may continue to use its mark even after the registration of the mark by the first-to-file registrant in good faith**, subject to the condition that any transfer or assignment of the mark by the prior user in good faith should be made together with the enterprise or business or with that part of his enterprise or business in which the mark is used. The mark cannot be transferred independently of the enterprise and business using it.

From the provision itself, it can be gleaned that while the law recognizes the right of the prior user in good faith to the continuous use of its mark for its enterprise or business, it also respects the rights of the registered owner of the mark by preventing any future use by the transferee or assignee that is not in conformity with Section 159.1 of the IP Code. Notably, only the manner of use by the prior user in good faith — that is, the use of its mark tied to its current enterprise or business — is categorically mentioned as an exception to an action for infringement by the trademark owner. The proviso in Section 159.1 of the IP Code ensures that, despite the transfer or assignment of its mark, the future use by the assignee or transferee will not go beyond the specific confines of such exception. Without the proviso,

the prior user in good faith would have the free hand to transfer or assign the "protected use" of its mark for any purpose to a third person who may subsequently use the same in a manner unduly curtailing the rights of the trademark owner. Indeed, this unilateral expansion of the exception by a third person could not have been intended, and is guarded against, by the legislature through the foregoing proviso.

In any event, the application of Section 159.1 of the IP Code necessarily results in at least two entities — the unregistered prior user in good faith or their assignee or transferee, on one hand; and the first-to-file registrant in good faith on the other — concurrently using identical or confusingly similar marks in the market, *even if there is likelihood of confusion*. While this situation may not be ideal, as eruditely explained in the Concurring Opinion of Justice Perlas-Bernabe, the Court is constrained to apply Section 159.1 of the IP Code as written.

To recall, the RTC imposed on Zuneca the following penalties in light of its finding that Zuneca had committed trademark infringement, which penalties were later affirmed by the CA:

Defendants, jointly and severally, are hereby directed to pay the plaintiff the following amounts, to wit:

One Million Pesos (P1,000,000.00) as damages;  
One Million Pesos (P1,000,000.00) as exemplary damages;  
Two Hundred Thousand Pesos (P200,000.00) as attorney's fees;  
and the Costs.

Defendants are further enjoined from henceforth using Zynaps or any other variations thereto which are confusingly similar to the plaintiff's Zynapse.

It is likewise ordered that all infringing goods, labels, signs, prints, packages, wrappers, receptacles, and advertisements in possession of the defendants, bearing the registered mark or any reproduction, counterfeit, copy, or colourable imitation thereof, all plates, molds, matrices and other means of making the same, implements, machines, and other items related to the conduct, and predominantly used, by the defendants in such infringing activities, be disposed of outside the channels of commerce or destroyed, without compensation.

The counterclaim of the defendants is DISMISSED for lack of merit.

Because Zuneca is not liable for trademark infringement under Section 159.1 of the IP Code, the Court finds that there is no basis for the above imposition of penalties.

The penalties ordered by the lower courts — that is, the payment of damages, injunction, and destruction of goods of Zuneca — are based on Sections 156 and 157 of the IP Code, which provide:

**SECTION 156. *Actions, and Damages and Injunction for Infringement.* —**  
156.1. The owner of a registered mark **may recover damages from any person who infringes his rights**, and the measure of the damages suffered

shall be either the reasonable profit which the complaining party would have made, had the defendant not infringed his rights, or the profit which the defendant actually made out of the infringement, or in the event such measure of damages cannot be readily ascertained with reasonable certainty, then the court may award as damages a reasonable percentage based upon the amount of gross sales of the defendant or the value of the services in connection with which the mark or trade name was used in the infringement of the rights of the complaining party. (Sec. 23, first par., R.A. No. 166a)

156.2. On application of the complainant, the court may impound during the pendency of the action, sales invoices and other documents evidencing sales. (n)

156.3. In cases where actual intent to mislead the public or to defraud the complainant is shown, in the discretion of the court, the damages may be doubled. (Sec. 23, first par., R.A. No. 166)

156.4. The **complainant, upon proper showing, may also be granted injunction.** (Sec. 23, second par., R.A. No. 166a)

**SECTION 157. Power of Court to Order *Infringing Material Destroyed.* —**

157.1 In any action arising under this Act, in which a violation of any right of the owner of the registered mark is established, the **court may order that goods found to be infringing be, without compensation of any sort, disposed of** outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, **or destroyed**; and all labels, signs, prints, packages, wrappers, receptacles and advertisements in the possession of the defendant, bearing the registered mark or trade name or any reproduction, counterfeit, copy or colorable imitation thereof, all plates, molds, matrices and other means of making the same, shall be delivered up and destroyed. (Emphasis supplied)

A plain reading of the above provisions reveals that that these remedies may only be ordered by the court if there was a finding that a party had committed infringement. Here, because of the application of Section 159.1 of the IP Code, Zuneca is not liable for trademark infringement. Consequently, it follows that the award of damages, issuance of an injunction, and the disposition and/or destruction of allegedly infringing goods could not be ordered by the court.

Indeed, directing the foregoing remedies despite a finding of the existence of a prior user in good faith would render useless Section 159.1 of the IP Code, which allows the continued use and, in certain situations, the transfer or assignment of its mark by the prior user in good faith after the registration by the first-to-file registrant. To reiterate, Section 159.1 of the IP Code contemplates a situation where the prior user in good faith and the first-to-file registrant in good faith concurrently use identical or confusingly similar marks in the market, even if there is likelihood of confusion.

While Section 147.1 of the IP Code provides that the owner of a registered mark shall have the exclusive right to prevent third parties' use of identical or similar marks for identical or similar goods where such use would result in a likelihood of confusion, **this provision should be interpreted in harmony with Section 159.1 of the IP Code**, especially the



latter's proviso which allows the transfer or assignment of the mark together with the enterprise or business of the prior user in good faith or with that part of his enterprise or business in which the mark is used. The lawmakers intended for the rights of the owner of the registered mark in Section 147.1 to be subject to the rights of a prior user in good faith contemplated under Section 159.1. Essentially, therefore, Section 159.1 is an exception to the rights of the trademark owner in Section 147.1 of the IP Code.

Bearing in mind the current ownership regime based on registration under the IP Code which likewise protects and respects the rights of prior users in good faith, it is thus reasonable to infer that the new system of acquiring ownership effectively protects potential entrants in the market. Consistent with the expressed State policy under the law, the system under the IP Code encourages potential market entrants who may lack resources to venture into business with the assurance that their intellectual property rights are protected and may be enforced under the law, especially if they register their marks.

By having a uniform, easily-verifiable system of acquiring ownership, potential entrepreneurs have the guarantee that once they avail in good faith of the relatively inexpensive procedure of registration with the IPO, they already have the upper-hand against someone who could make a claim of ownership based on a supposed "prior use" — an issue that may entail expensive and extensive litigation effectively favoring those who have more resources. As explained, due to the change in the language of Section 123.1 of the IP Code, the registered owners in good faith who dutifully maintain their registrations generally do not have to worry that their rights over the registered mark may one day be subject to a cancellation proceeding by someone with claims of prior actual use. This uniform system of ownership also gives a sense of stability to potential foreign entrepreneurs wanting to offer their products and services in the Philippines because, if they register their marks in good faith and diligently maintain said marks, they no longer have to worry about their ownership over the mark being attacked by someone appearing out of the blue claiming to be a local prior user of the mark all along. Such sense of stability given by the current system of acquiring trademark ownership is in consonance with the expressed State policy that describes an effective intellectual and industrial property system as one that "attracts foreign investments."

In the same vein, those who do not have the resources to apply for trademark registrations are protected from infringement cases and may exercise certain rights under the law, albeit their rights under the IP Code are more limited compared to the owners of the mark.

Lastly, as additional rationale for initiating the complaint for trademark infringement against Zuneca and presumably to prevent the coexistence of the subject marks in the market, Natrapharm points out the dire consequence of the possibility of medical switching in the case at bar, especially since "ZYNAPSE" and "ZYNAPS" are admitted to be confusingly similar. Allegedly, if a stroke patient who is supposed to take *citicoline* ("ZYNAPSE") mistakenly ingests *carbamazepine* ("ZYNAPS"), said patient will not only be not cured of stroke but also be exposed to the risk of suffering Stevens-Johnson syndrome, a side effect of *carbamazepine*, which is a serious systemic body-wide allergic reaction with a characteristic rash which attacks and disfigures the skin and mucous membrane.

While there is no issue as to the likelihood of confusion between "ZYNAPSE" and "ZYNAPS," the Court believes that the evil of medical switching will likely not arise, considering that the law requires the generic names of drugs to be written in prescriptions.

R.A. 6675 146 (Generics Act of 1988), as amended by R.A. 9502 147 or the Universally Accessible Cheaper and Quality Medicines Act of 2008, reads:

**SEC. 6. *Who Shall Use Generic Terminology.* — (a) All government health agencies and their personnel as well as other government agencies shall use generic terminology or generic names in all transactions related to purchasing, prescribing, dispensing and administering of drugs and medicines.**

**(b) All medical, dental and veterinary practitioners, including private practitioners, shall write prescriptions using the generic name.** The brand name may be included if so desired. (Emphasis supplied)

Pertinently, the said law also provides for the appropriate penalties for failure to comply with these requirements. Section 12 of the Generics Act of 1988, as amended, reads:

**SEC. 12. *Penalty.* — (A) Any person who shall violate Section 6(a) or 6(b) of this Act shall suffer the penalty graduated hereunder, viz.:**

(a) for the first conviction, he shall suffer the penalty of reprimand which shall be officially recorded in the appropriate books of the Professional Regulation Commission.

(b) for the second conviction, the penalty of fine in the amount of not less than Ten thousand pesos (Php10,000.00) but not exceeding Twenty-five thousand pesos (Php25,000.00), at the discretion of the court.

(c) for the third conviction, the penalty of fine in the amount of not less than Twenty-five thousand pesos (Php25,000.00) but not exceeding Fifty thousand pesos (Php50,000.00) and suspension of his license to practice his profession for sixty (60) days at the discretion of the court.

(d) for the fourth and subsequent convictions, the penalty of fine of not less than One hundred thousand pesos (Php100,000.00) and suspension of his license to practice his profession for one (1) year or longer at the discretion of the court.

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(C) The Secretary of Health shall have the authority to impose administrative sanctions such as suspension or cancellation of license to operate or recommend suspension of license to practice profession to the Professional Regulation Commission as the case may be for the violation of this Act.

The administrative sanctions that shall be imposed by the Secretary of the Department of Health shall be in a graduated manner in accordance with Section 12.A.

An administrative case may be instituted independently from the criminal case: Provided, That, the dismissal of the criminal case or the withdrawal of the same shall in no instance be a ground for the dismissal of the

administrative case.

Still, even as the Generics Act of 1988, as amended, provides protection to the consumers — and despite the Court's recognition of the respective rights under the IP Code of the first registrant in good faith and the prior user in good faith — the Court is nonetheless mindful of potential switching of medicines. As amply elaborated by Justice Gesmundo in his Concurring Opinion, the issue on likelihood of confusion on medicines may pose a significant threat to public health, hence, there is a need to improve our intellectual property laws and the government's manner of regulation of drug names to prevent the concurrent use in the market of confusingly similar names for medicines.

To further reduce therefore, if not totally eliminate, the likelihood of switching in this case, the Court hereby orders the parties to prominently state on the packaging of their respective products, in plain language understandable by people with no medical background or training, the medical conditions that their respective drugs are supposed to treat or alleviate and a warning indicating what "ZYNAPS" is *not* supposed to treat and what "ZYNAPSE" is *not* supposed to treat, given the likelihood of confusion between the two.

As well, by this Decision, the Court furnishes the Food and Drug Administration a copy of this decision, and accordingly directs it to monitor the continuing compliance by the parties of the above directives.

**WHEREFORE**, premises considered, the petition is **PARTLY GRANTED** and the Court hereby declares petitioners **ZUNECA PHARMACEUTICAL AND/OR AKRAM ARAIN AND/OR VENUS ARAIN, M.D., AND STYLE OF ZUNECA PHARMACEUTICAL** as the prior users in good faith of the "ZYNAPS" mark and accordingly protected under Section 159.1 of the Intellectual Property Code of the Philippines.

The assailed Decision and Resolution of the Court of Appeals in CA-G.R. CV No. 99787, which affirmed the Decision of the Regional Trial Court of Quezon City, Branch 93 dated December 2, 2011, are **AFFIRMED** insofar as they declared respondent **NATRAPHARM, INC.** as the lawful registrant of the "ZYNAPSE" mark under the Intellectual Property Code of the Philippines, and are **SET ASIDE** insofar as they hold petitioners liable for trademark infringement and damages, directed the destruction of petitioners' goods, and enjoined petitioners from using "ZYNAPS." Petitioners' application for the issuance of a Temporary Restraining Order and/or Preliminary Injunction is **DENIED**.

**ZUNECA PHARMACEUTICAL AND/OR AKRAM ARAIN AND/OR VENUS ARAIN, M.D., AND STYLE OF ZUNECA PHARMACEUTICAL** and **NATRAPHARM, INC.** are likewise **ORDERED** to: (1) indicate on their respective packaging, in plain language understandable by people with no medical background or training, the medical conditions that their respective drugs are supposed to treat or alleviate and a warning indicating what "ZYNAPS" is *not* supposed to treat and what "ZYNAPSE" is *not* supposed to treat; and (2) submit to the Court a written report showing compliance with this directive within thirty (30) days from receipt of this Decision.

Let a copy of this Decision be furnished the Food and Drug Administration which is, by this Decision, directed to monitor the parties' continuing compliance with the above directives.

Let copies of this Decision likewise be forwarded to the Senate President, the Speaker of the House of Representatives, and the Intellectual Property Office, for their information and

guidance.

**SO ORDERED.**